

SPOKANE COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Controls Over Cash Receipting Should Be Strengthened

Our review of the cash receipting procedures at the county's departments revealed the following internal control weaknesses:

- a. The county does not have established written policies and procedures for cash receipting at the decentralized locations.
- b. Public funds are not being deposited intact within 24 hours of receipt as required by state law.
- c. Cash/check composition is not recorded on receipts.
- d. Departments are using blank Redi-form receipts. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. The county was unable to provide a comprehensive list of collection sites.

Washington State Constitution, Article 11, Section 15 states in part:

All moneys, assessments and taxes belonging to or collected for use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 36.29.020 states in part:

The county treasurer shall keep all moneys belonging to the state, or to any county, in his or her own possession until disbursed according to law.

RCW 36.48.010 states in part:

Each county treasurer shall annually at the end of each fiscal year or at such other times as may be deemed necessary, designate one or more financial institutions in the state which are qualified public depositories

as set forth by the public deposit protection commission as depository or depositories for all public funds held and required to be kept by such treasurer.

RCW 43.09.240:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Weak internal controls over cash receipting increase the risk of theft.

These conditions have occurred because the county has failed to implement our prior cash receipting recommendations and does not have written procedures from which to establish and maintain proper control over county cash receipting.

The same conditions regarding cash receipting procedures at the county's departments were reported in our 1993 and 1994 reports.

We again recommend the following:

- a. The county should establish written policies and procedures for cash receipting at the decentralized locations.
- b. All public funds should be deposited intact within 24 hours of receipt.
- c. Cash and check composition should be recorded on receipts to ensure that all receipts are recorded and deposited.
- d. Blank Redi-form receipts should be replaced with official county prenumbered receipts controlled by the treasurer.
- e. Determine the location of all of the county's cash receipting locations.

2. The County Should Improve The Internal Control Policies And Procedures Over The Procurement Process

During our review of the decentralized procurement internal control system, a system which processes in excess of \$24,000,000 or 29 percent of all goods and services purchased for the county, we noted the following internal control weaknesses:

- a. Established internal control procedures are not being followed by the county's departments. The purchasing system allows all departments, except public works, to purchase goods and services up to \$2,500 without using the purchasing department's services. The public works department's limits are substantially higher. Our testing determined that county departments are routinely exceeding the authorized limits for purchases.
- b. The county lacks monitoring procedures to ensure that negotiated prices for goods and services are obtained by the decentralized purchasing departments. During our testing, we noted one purchase of office supplies which was invoiced at 242 percent over the lowest quote obtained by the purchasing department. Also noted, was a purchase of automotive parts which was invoiced at 165 percent over the price negotiated by another county department. Lack of monitoring of decentralized purchase orders allows noncompliance with purchasing procedures to occur and continue.
- c. Built-in computer internal controls are routinely circumvented. The computer system has been programmed to limit the amount of purchases charged to specific account codes. During our testing we noted that departments intentionally used improper account codes which bypassed established purchasing limits controls.
- d. No independent review of departmental purchases is made by the purchasing department. This resulted in purchasing noncompliance in the departments. For example, we found that only two quotations were obtained on purchases (repairs) over \$2,500 by the safety loss department.
- e. The departments decentralized purchasing fails to follow established county policies and procedures. Purchases are routinely made from vendors who are not within the required county approved contracts.

RCW 36.32.240 states in part:

. . . the purchasing department shall contract on a competitive basis for all public works, enter into leases of personal property on a competitive basis, and purchase all supplies, materials, and equipment on a competitive basis, for all departments of the county . . . except that the county purchasing department is not required to make purchases for the county hospital, or make purchases that are paid from the county road fund or equipment rental and revolving fund.

RCW 36.32.245 (3) states in part:

For advertisement and formal sealed bidding to be dispensed with as to purchases between two thousand five hundred and twenty-five thousand dollars, the county legislative authority must use the uniform process to award contracts as provided in RCW 39.04.190.

RCW 39.04.190 states in part:

Municipalities shall by resolution establish a procedure for securing telephone or written quotations, or both, from at least three different vendors whenever possible to assure that a competitive price is established and for awarding the contracts for the purchase of any materials, equipment, supplies or services to the lowest responsible bidder

Spokane County Purchasing Department Purchasing Procedures Manual states in part:

. . . the use of county contracts is required by all agencies of the county that are authorized to use them.

The county has not implemented sufficient controls over the decentralized purchasing system to ensure that established policies and procedures are followed.

The purpose of competitive bidding statutes is to promote honesty and economy in public contracts. Further, the county's policies and procedures have been established to ensure that funds are used as prudently as possible. By not following the county's established policies and procedures the county is not able to demonstrate that they received the best price for the goods and services purchased.

We recommend the county enforce requirements as stated in the county purchasing procedures manual. Further, we recommend the county develop a centralized review for decentralized purchase orders and purchase files.

3. The County Should Adequately Document Sole Source Procurement Contracts

During our review of the county's adherence to bid statutes we noted that they do not adequately document sole source procurement contracts. Of the seven files pulled for detailed testing, four did not contain adequate documentation to justify the sole source classification. The purchases, lacking sufficient documentation for the sole source classification, were in excess of \$500,000. The files with inadequate documentation were for network computers, closed circuit TV parts, guns and parking meters. In addition, a resolution declaring a sole source for network computers for 16 months was approved in 1996. The justifications documented do not demonstrate that the product is available from only one source or that there is any product differentiation to justify sole source procurement.

Spokane County Purchasing Department Purchasing Procedures Manual states in part:

For Sole Source Procurement an item must meet both of the following criteria:

1. Be available from only one source and
2. Have product differentiation that makes it unique in some respect from all other products.

If only one vendor can supply the needed commodity, a single quotation may be obtained from that vendor and a purchase order placed. Documentation, explaining the unique features, why they are important, critical, advantageous, or required to the extent to that competition should be eliminated, must be placed in the purchase order file.

The county has not established an adequate internal control system over the purchasing process to ensure compliance with sole source procurement criteria.

Competitive bid procedures provide assurance of the lowest possible costs to the county and show a fairness on the part of the county toward vendors. By declaring a sole source without adequate documentation, the county may have improperly exempted these purchases from competitive bidding requirements.

We recommend the county strengthen documentation of justification for sole source procurement as an exception to statutory bidding requirements.

4. Purchasing Department Should Comply With State Bid Law Regarding Publication Of Use Of Vendor List

During our review of the purchasing department's use of vendor lists, we found the county did not properly follow state law in the procedures used for purchasing goods and services which are not required to be formally bid. The purchasing department did not publish notice of the existence of vendor lists nor solicit names of vendors for the lists as required by state law.

RCW 36.32.245 (3) states in part:

Advertisement and formal sealed bidding may be dispensed with as to purchases of less than two thousand five hundred dollars upon the order of the county legislative authority.

RCW 39.04.190 (2) states in part:

At least twice per year, the municipality shall publish in a newspaper of general circulation within the jurisdiction a notice of the existence of vendor lists and solicit the names of vendors for the lists. Municipalities shall by resolution establish a procedure for securing telephone or written quotations, or both, from at least three different vendors whenever possible to assure that a competitive price is established

The county has not established adequate policies and procedures to ensure that procurement from vendor listings meet state mandated requirements.

By not publishing a notice of the existence of vendor lists and by not soliciting names for vendor lists as prescribed by law, some members of the business community may be deprived of the opportunity to participate in the competitive bidding process.

We recommend that the purchasing department adhere to the requirements of RCW 39.04.190 (2), and revise the Spokane County Code and Spokane County Purchasing Procedures to address the use of vendor lists.

5. Internal Controls Over The Fixed Asset System Need To Be Strengthened

During our audit of the fixed asset control system we noted the following weaknesses:

- a. Access to the storage warehouse, which is used to store surplus county equipment prior to auction, is not adequately controlled. Numerous county employees have keys to the storage warehouse.
- b. There is no comprehensive inventory listing of all assets in the storage warehouse awaiting sale. The county could not provide an accurate accounting of the items stored in the warehouse.
- c. Items are routinely removed from the warehouse by non-county personnel. We found several cases where individuals from a private non-profit corporation removed items from the storage warehouse including desks, chairs, a copy machine, file cabinets, computers, computer printers, etc., and did not pay the county for the private use of these items.
- d. There is no follow-up of assets identified as missing by the departments responsible for their control. There are no established policies and procedures to ensure that department personnel properly account for and protect county assets.
- e. Some assets placed in the warehouse for sale were not sold at the county auction. Several items have disappeared between the time the asset reaches the warehouse and the actual auction.
- f. Established policies and procedures developed to ensure that assets are only surplus after they no longer benefit the public are routinely circumvented. County policy requires that a list of all items to be surplus is distributed to all departments to determine if there continues to be a public use for the assets. Many county departments do not use the central warehouse and the surplus assets are never offered to other departments who could use the equipment.

RCW 43.09.200, Division of Municipal Corporations *Uniform System of Accounting*, states in part:

The accounts shall show the receipt, use, and disposition of all public property

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

The county has not implemented an adequate internal control system over the fixed assets.

Because of the lack of controls over property and equipment there is no way to know that all items surplused are appropriately disposed of in the public's best interest.

We recommend the county:

- a. Improve the physical access controls to this facility.
- b. Discontinue allowing county equipment to be transferred to non-county entities without adequate documentation demonstrating the public benefit of the transaction.
- c. Improve internal controls over the fixed asset internal control system.

6. Internal Controls Over Cash Receipting Should Be Strengthened At District Court

During our audit of the county's district court cash receipting system which collected more than \$3.8 million, we noted the following internal control weaknesses:

- a. There is an improper segregation of duties for the cashiers. The cashiers receipt cash, create time pays, post adjustments to daily receipts and accounts receivable files in the District Court Information Systems (DISCIS). These are incompatible duties for the cashiers.
- b. Cashiers reduce the amounts due on tickets, referred to as counter mitigation, without adequate management review or authorization.
- c. Cashiers are given improper access to the DISCIS computer system. Cashiers have been assigned the accountant user identification which allows them special privileges of completing overrides and creating time pays and receipt reversals.
- d. There is no evidence of an independent review of DISCIS created audit reports. Audit adjustment reports are given a limited review. Our testing revealed that 13 out of 22 (59 percent) of cases tested did not have adequate supporting documentation for adjustments.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction
. . . .

These conditions exist because the district court has not implemented strong internal controls over the cash receipting system.

Inadequate internal control over cash receipting increases the court's exposure to theft.

We recommend that the cash receipting internal control system be strengthened. We further recommend the audit reports be adequately reviewed and retained.

7. Internal Controls Over Cash Receipting Should Be Strengthened At The Office Of County Clerk

During our audit of the office of county clerk's cash receipting system which collected more than \$8.8 million during 1995, we noted the following internal control weaknesses:

- a. "Redi-form" receipts are used. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner. This is because the assignment of the numerical sequence to these receipt forms is not under the court's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- b. Cashiers perform incompatible duties. They receipt cash, post adjustments to daily receipt and accounts receivable files in the Judicial Accounting Sub-System (JASS).
- c. Cashiers have been assigned the accountant user identification to access the JASS system which allows them the ability to complete overrides and receipt reversals. These are incompatible duties.
- d. Audit adjustment reports have not been consistently generated or reviewed. These audit reports are necessary to provide adequate management oversight of the cash receipting process.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction
. . . .

The court clerk contends that staffing considerations and work load issues impedes the implementation of strong internal controls.

Inadequate internal control over cash receipting increases the court's exposure to possible theft.

We recommend that the cash receipting internal control system be strengthened. We further recommend the audit reports be created, adequately reviewed and retained.

8. The County Should Not Give Retroactive Pay Increases To Non-represented County Employees

During our review of the payroll system we noted that the county improperly approved retroactive pay raises. On March 14, 1995, and again on June 18, 1996, the county commissioners approved retroactive cost of living pay adjustments for non-represented county employees.

Washington State Constitution, Article 1, Section 25, states that Extra Compensation is Prohibited.

The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the service shall have been rendered, or the contract entered into

The county did not comply with the state of Washington Constitution. They spent approximately \$29,800 in 1995 and \$65,600 in 1996 inappropriately by granting extra compensation to non-represented county employees after the services had been rendered.

We recommend county management comply with the state laws governing retroactive pay increases.

9. Separation Of Duties Between Payroll And Human Resources Should Be Improved

Inappropriate separation of duties exist between the payroll and human resources. Payroll establishes new employees files, makes semi-monthly payroll transactions and makes any changes to the employee employment status, including removing the employee from the system. Human resources is not properly authorizing users for access privileges and payroll and human resources responsibilities are not adequately documented.

The county's payroll department is part of the county auditor's financial services department. It has full capability to add, delete and change employee information, perform payroll processing functions and distribute the payroll checks. The county's human resources department is organizationally responsible to the board of county commissioners. It does not complete an independent review of payroll activity.

Payroll and human resources responsibilities are not adequately documented. The county does not have written policies or procedures in the following areas:

- a. Preparation of data (timekeeping, data entry, personnel action forms).
- b. Securing and controlling negotiable source documents.
- c. Identification, correction, and resubmission of rejected data.
- d. Balancing and reconciliation of output.

The AICPA's *Professional Standards*, Volume A, in Section 320.37 states:

Incompatible functions for accounting control purposes are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties.

The lack of written policies and procedures results in a loss of accountability. Incomplete documentation inhibits the complete understanding of the system's functions, making employee training as well as system modification more difficult.

We note that the county has activated a position authorization feature of its payroll/human resources computer application. This provides an alternative control that limits the extent of errors or irregularities that may occur. However, it does not prevent errors or irregularities in certain situations, e.g., part-time employees and unfilled authorized positions.

The combined effect of inappropriate separation of duties and inadequate written policies and procedures increase the risk that errors or irregularities could occur during the normal course of business and not be detected in a timely manner.

The county purchased the Government Human Resources System (GHRS) because the vendor was no longer going to support the old payroll system. There was no feasibility study and planning. The county bought GHRS and put it on line without determining how the payroll and human resources departments should perform the payroll function. And, senior management gave little priority to writing policies and procedures.

These same conditions regarding payroll procedures at the county were reported in our 1993 and 1994 reports.

We again recommend the county take the following actions:

- a. Establish appropriate separation of duties between the payroll and human

resources departments as stated below:

- (1) Ensure that the payroll department acts independently of the financial accounting function, i.e., the payroll department should be limited to processing payroll.
- (2) Human resources should perform the function of adding, deleting, and completing employee changes to the employee master file.

b. The county payroll and human resources departments should develop written policies and procedures for maintaining and reporting payroll and personnel transactions in the following areas:

- (1) The preparation of data (timekeeping, data entry, personnel action forms).
- (2) Securing and controlling negotiable source documents.
- (3) Identification, correction, and resubmission of rejected data.
- (4) Balancing and reconciliation of output.

10. The County Should Improve Security Access Controls Over Its Computer System

During our audit of the county's computer systems, we noted security over access to the systems should be improved. Our tests disclosed that the current use of security controls does not limit users to only those functions that they need to do their job. Several problems were noted as follows:

Information Systems Staff Security Environment

- . Information systems staff have access to the program documentation, production programs and data files, and access privileges are not granted based on job responsibilities. They have the capability to add, delete, change, approve, and override transactions.
- . Access security is established and controlled by application programmers.
- . The county does not have a library function. By utilizing a library, the county's information systems staff would not make changes to the on-line operating programs, thereby risking corruption of current county data. Information systems staff have access to all active programs. Further, the county does not have a librarian to monitor access to the programs.

User Security Access Environment

- . Unlimited invalid access attempts are allowed and there are no written procedures established for the investigation of security violations.
- . Passwords are not changed on a periodic basis, and many have never been changed.
- . The security core foundation logging capabilities, the controls to ensure that unauthorized access to the county's computer applications do not occur, have not been implemented. There is no audit trail of application security violations, approval logging or override logging.

The EDP Auditor's *Foundations, Control Objectives*, Section 3.4.1, states:

Access to the computing resources of the Systems Services Department should be limited to those individuals with a documented and authorized need for such access. Layers of logical and physical access controls should be provided to protect the department's computing resources against unauthorized use or modification, damage, or loss.

Access controls are designed to limit access to documentation, files, and programs. A weakness in or lack of such controls increases the opportunity for unauthorized modifications to files and programs, as well as misuse of the computer hardware. Weaknesses in systems software, program, and data security significantly decrease the integrity of the system.

County officials have not implemented or monitored security controls over its computer systems to ensure adequate access security is established for all county computers containing critical production programs and data files.

We recommend that county management strengthen controls over the information

systems.